

Message Text

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INFO AMCONSUL RIO DEJANEIRO

AMCONSUL SAO PAULO

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TAGS: EFIN, BR

SUBJECT: CRUZEIRO DEVALUATION AND JANUARY FINANCIAL INDICATORS

1. EXCHANGE RATE. THE CENTRAL BANK ANNOUNCED NEW OFFICIAL CRUZEIRO/DOLLAR EXCHANGE RATES OF 16.395 BUYING AND 16.495 SELLING EFFECTIVE 17 FEB 1978. THE DEVALUATION WAS THE SECOND IN 1978 AND CAME 25 DAYS AFTER THE LAST MODIFICATION. THE NEW RATES REPRESENT DEPRECIATION OF 1.5 PERCENT COMPARED TO THE PREVIOUS RATES, 2.8 PERCENT IN 1978 AND 28.1 PERCENT IN THE LAST 12 MONTHS. THE LATTER REFLECTS A CONTINUING GRADUAL DECLINE IN THE ANNUAL RATE OF DEPRECIATION OF THE CRUZEIRO VIS A VIS THE U.S. DOLLAR, WHICH CENTRAL BANK SOURCES ATTRIBUTE TO THE REDUCED RATE OF DOMESTIC INFLATION AND RECENT DEPRECIATION OF THE DOLLAR WITH RESPECT TO CERTAIN OTHER MAJOR CURRENCIES.

2. PRICES. INFLATION HAS CONTINUED TO MODERATE AND AS MEASURED BY THE GENERAL PRICE INDEX FOR INTERNAL SUPPLY WAS 2.7 PERCENT IN JANUARY 1978 AND CUMULATIVE 37.3 PERCENT OVER THE LAST 12 MONTHS. THE COMPARATIVE UNCLASSIFIED

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FIGURES FOR END JANUARY 1977 WERE 3.9 PERCENT AND 49.0 PERCENT. FOR THE FIRST TIME IN MANY MONTHS THE RIO COST-OF-LIVING INCREASED LESS THAN THE GENERAL PRICE INDEX: 2.2 PERCENT IN JANUARY AND CUMULATIVE 39.2 PERCENT FROM FEB 77 - JAN 78. THE WHOLESALE PRICE INDEX ROSE 3.0 PERCENT IN JANUARY 1978 AND CUMULATIVE 35.4 PERCENT DURING THE PAST 12 MONTHS.

3. MONEY SUPPLY. THE MONEY SUPPLY CONTRACTED IN NORMAL SEASONAL FASHION IN JANUARY, OWING IN PART TO AMORTIZATION AND INTEREST PAYMENTS ON THE FOREIGN DEBT. THE DECLINE IN M1 WAS 6.4 PERCENT, COMPARED TO 8.6 PERCENT IN JANUARY 1977. THE PERFORMANCE COMPARED FAVORABLY WITH THE MONETARY BUDGET TARGET OF 6.1 PERCENT AND WAS CHARACTERIZED AS QUOTE SATISFACTORY END QUOTE BY MINISTER SIMONSEN, IN VIEW OF THE SUBSTANTIAL RELEASE OF FOREIGN LOAN PROCEEDS THAT HAD BEEN STERILIZED TEMPORARILY IN LATE 1977.

4. WAGE ADJUSTMENT GUIDELINE. THE GOB SET THE MINIMUM ANNUAL INCREASE FOR LABOR CONTRACTS BEING NEGOTIATED IN FEBRUARY AT 39.0 PERCENT. THIS WAS THE FIRST CHANGE IN THE OFFICIAL GUIDELINE SINCE MARCH 1977 WHEN IT WAS REDUCED FROM 41.0 PERCENT TO 40.0 PERCENT. THE NEW GUIDELINE VERY CLOSELY CORRESPONDS TO THE ANNUAL RATE OF INCREASE IN THE RIO COST-OF LIVING FOR THE FIRST TIME SINCE OCTOBER 1976. IT WOULD HAVE EXCEEDED INFLATION AND THUS IMPLIED A REAL INCREASE IN WAGES IF IT HAD NOT BEEN LOWERED. FROM LATE 1976 THROUGH 1977 THE GOB MAINTAINED THE WAGE ADJUSTMENT GUIDELINE WELL BELOW THE ANNUAL INCREASE IN THE COST-OF-LIVING AS PART OF ITS OVERALL ANTI-INFLATION POLICY. ACCORDING TO UNCLASSIFIED

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GOB SPOKESMEN, THIS POLICY HAS NOT BEEN CHANGED AND THE WAGE GUIDELINE WILL CONTINUE TO DECLINE GRADUALLY, CONSISTENT WITH EXPECTED FURTHER REDUCTION IN THE RATE OF INFLATION.

5. TRADE BALANCE. PRELIMINARY DATA ON EXPORT AND IMPORTS IN JANUARY ARE NOT YET AVAILABLE. HOWEVER, MINISTER SIMONSEN HAS STATED THAT COFFEE RECEIPTS WERE ONLY ABOUT \$100 MILLION AND THAT THERE WAS AN ESTIMATED OVERALL TRADE DEFICIT OF ABOUT \$70 MILLION.

6. REAL ECONOMIC ACTIVITY. SELECTED AVAILABLE INDICATORS SUGGEST THAT THE MODEST PICKUP IN ECONOMIC ACTIVITY IN NOV - DEC 1977 CONTINUED INTO JAN 1978. DATA FOR JAN 1978 COMPARED WITH JAN 1977 SHOW PRODUCTION OF STEEL INGOTS UP 11.7 PERCENT, PIG IRON UP 20 PERCENT, AND CARS UP 14.3 PERCENT. CAR SALES WERE 6.2 PERCENT HIGHER IN JAN 1978 THAN IN JAN 1977 AND OVERALL RETAIL SALES IN RIO INCREASED FOR THE THIRD CONSECUTIVE MONTH. THE INCREASES IN RIO RETAIL SALES, COMPARING JAN 78 AND JAN 77, WERE 11.6 PERCENT FOR CONSUMER DURABLES,

1.3 PERCENT FOR NON-DURABLES, AND 6.8 PERCENT TOTAL.
SEVERAL INDICES OF HOUSHING CONSTRUCTION AND SALES
IN SAO PAULO SUGGEST THAT ACTIVITY INCREASED
SHARPLY IN JAN 1978 COMPARED TO NOV-DEC 1977 BUT WAS
STILL SUBSTANTIALLY BELOW LEVELS RECORDED IN EARLY
1977.
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